

## REFORM OF THE EU COMMON MARKET ORGANISATION FOR FRUIT AND VEGETABLES

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### ABSTRACT

A new Common Market Organisation (CMO) for fruit and vegetables is in place from 1 January 2008. First debate about reform was lunched in 2004 by European Commission and its publication about simplification of the Fruit and Vegetable Common Market Organisation.

The last extensive reform in 1996 introduced modifications like a plan for the progressive reduction of support for short-term market intervention and the strengthening of structural aid to improve competitiveness in order to help producers to develop their capacity and to adapt to market demand. The most important reasons for the new reform of CMO for fruit and vegetables are imbalance in the supply and distributions chain, limited influence of the producers' organisations, coherence with rural development aid and the questions of standards.

The objective of this paper is to explore the regulatory framework of the European Common market organisation for fruit and vegetables, reasons and aims of the reform and to compare the Croatian legislation regarding fruit and vegetables sector with the EU CMO for fruit and vegetables.

The qualitative research strategy which emphasizes words rather than quantification in the collection and analysis of data and has an inductive approach to the relationship between theory and research is used to make conclusions in this paper. The conclusions about the objectives are made by studying the reference literature related to the topic of the EU Fruit and Vegetables Common market organisation, assumptions derived from the research and professional knowledge related to the topic.

Key words: European Union, common market organisation, fruit and vegetables, legislation, Croatia

### INTRODUCTION

The European Union is one of the major players in world horticulture. The fruit and vegetables are one part of the horticulture because horticulture could be understood as the science of cultivating not only fruits and vegetables but also flowers or ornamental plants. The EU's policy in fruit and vegetables sector is developed having four main criteria in mind: the diversity of

production types, the short duration nature of many products, the need to improve product quality and the importance of trade.

The sector is very heterogeneous due to a number of factors. It covers a large variety of products, production systems, farm types and sizes and marketing channels. The fruit and vegetables production is labour-intensive and needs the majority of agricultural seasonal labour.

In the last ten years the fruit and vegetables sector has faced strong pressure from the highly concentrated retail and discount chains on the one side and from the strong competition of third country products on the other side. Retail and discount chains have played important role in the setting of market prices and third countries have offered products of good quality at reasonable prices. The market share of third countries has rapidly increased. Producers' organisations (PO) as a very important element of Common Market Organisation (CMO) have not succeeded in concentrating supply in all Member states because a high percentage of growers in the main producing EU countries had not participated.

At the same time the current CMO essentially providing support to quantities of products was no more in line with the Common Agriculture Policy (CAP).

It was necessary to change the regime for the fruit and vegetables in order to improve the competitiveness and market orientation of the sector and to contribute to achieve sustainable production.

## FRUIT AND VEGETABLES SECTOR IN EUROPEAN UNION

Fruit and vegetables sector in EU-27 is very important sector representing 17% of the total EU agriculture production and utilises 3% of the cultivated area in the European Union (Document de Travail des Services de la Commission, 2007). Out of 9.7 million farms in the EU, sector numbers 1.4 million of which 660,000 are professional farms specialising in fruit and vegetables (Reform of the Fruit and Vegetable Sector, 2007).

The fruit and vegetables sector receives about 3.1% of the Common Agriculture's budget (about 1.5 billion EUR in 2005).

World production of fruit and vegetables amounted 1,290 million tonnes for the period 2001-2003. Fruit amounted to 480 million tonnes and vegetables to 810 million tonnes. The share of the EU-15 was 10%.

The largest producer in the same period was China with a share of 35% of world production. The production of fruit and vegetables has increased by 36% in volume in the period 1995-2003. Two-thirds of this growth originates in China where production increased by 96%, and production in EU-15 has increased by 6%, in India 38% and in the USA 3% (FAO data, 2005).

Regarding export, in the last few years the EU-15 has exported annually more than 2.5 million tonnes of fresh fruit and 1.4 million tonnes of fresh vegetables. At the same time (in the period of 2001-2003) EU-15 exported 2.5 million tonnes of processed vegetables. A major part of trade of the EU in fruit and vegetables is between member states. The EU is the main export destination as well as the main supply region with almost half of the world imports and more than 40% of world exports (FAO data 2005).

The most important traded products are citrus fruit (oranges, tangerines and clementines – 7 million tonnes), apples (5 million tonnes), tomatoes (4 million tonnes) and onions with 3.7 million tonnes (The horticulture sector in the European Union, 2003)

The economic importance of the sector has increased steadily in the last few years (from 13.4% in 1995 to 17.2% in 2003). This trend is result of the decrease in market prices of the other products. The significance of the fruit and vegetables sector is different in EU member states. It is particularly high in Greece (34.5%), Spain (32.3%) and Portugal (30.8%).

The main producer of fruit and vegetables is Italy (15.2 million tonnes of vegetables and 10.6 million tonnes of fruit) followed by Spain (12.0 million tonnes of vegetables and 10.4 million tonnes of fruit).

The average utilised agricultural area per holding in European Union is 3.9 hectares (Commission Staff Working Document, 2004).

## COMMON MARKET ORGANISATION FOR FRUIT AND VEGETABLES – DEVELOPMENT

The Common Market Organisation (CMO) for fresh fruit and vegetables was established in 1962 to govern the sector's production and trade in the EU and to achieve the CAP's objectives. The Common Market Organisation for processed fruit and vegetables has developed since 1968.

The CMO for fruit and vegetables has supported traditional production, often in less-developed regions, using rural development measures but has been market-oriented.

The first reform of CMO for fruit and vegetables took place in 1996.

The European Commission presented in July 1994 the paper on the development and future of Community policy in the fruit and vegetables sector. The main objectives of the future policy in fruit and vegetables sector were market orientation, decentralisation of management, grouping of supply and redirecting budgetary expenditure toward measures that would respond to the environmental demands.

As a final result of debate in the Council and Parliament, Council Regulations (EC) No 2200/96, No 2201/96 and No 2202/96 for fresh fruit and vegetables, processed fruit and vegetables and citrus were adopted in October 1996.

Starting with the 1996 CMO reform, producer organisations became the pillar of support for fruit and vegetables growers. They have been the European Union's key instrument for reforming the fruit and vegetable sector, by channelling support to farmers.

In December 2002 the European Council adopted Regulation (EC) 2966/2000 that amended the three above mentioned regulations.

The main modifications consisted in the introduction of a unique ceiling for the EU contribution to the Operational Funds and there was a change on the aid for processed products (tomato, pears and peaches). The aid was previously paid to the processors for the final produce based to the minimum-price system and now it was paid to the producers, through POs for the raw materials based on contracts between recognised POs and processors approved by Member States.

The Commission went on trying to simplify existing rules, to increase legal security for POs and national administrations by clarifying the existing provisions and as a result of that five new Regulations (EC) were adopted in 2003 (regulation of POs recognition, on Operational Funds and Operational programmes, on simplification in the processed fruit and vegetables, on simplification in the citrus sector, and on simplification in the intervention scheme).

In the period of 1996 till 2004, European Commission adopted numbers of Commission Regulations (EC) laying down the marketing standards for different fruit and vegetables and each of them had been amended several times within the above mentioned period.

The current reform started with the first debate about the need for reform that was launched in 2004 by European Commission. The result of the debate was publication about simplification of the Fruit and Vegetable Common Market Organisation.

The most important reasons for the new reform of CMO for fruit and vegetables were: fall in consumption, imbalance in the supply and distributions chain, limited influence of the producers' organisations, coherence with rural development aid and the question of standards.

The decline in consumption of fruit and vegetables in Europe was very surprising because it occurred in spite of promotion efforts linked with the importance of fruit and vegetables for health, changing lifestyle and eating habits. The average consumption is well below the level recommended by the

World Health Organisation (WHO) and nutrition experts (the recommended daily average consumption is 400 grams of fruit and vegetables).

The imbalance in the supply and distributions chains was result of growing purchasing power of supermarket chains on one side and rather small concentration of supply by producer organisations on the other side. The supermarkets are able to buy huge quantities at very low prices and to set their own standards and lot of producers are not involved in POs so they continue to be excluded from support by the CMO.

Short-term crises continue to affect the income of producers and to contribute to the imbalances between supply and demand. The final result is that selling prices fall below the cost price and can endanger the economic existence of the producer. It is very important regarding short-term crises to stress the significance of risk and crises management in agriculture. Namely, the CMO's market instruments and supports give only partial prevention and risk and crises management in fruit and vegetables sector could take into account all factors and give appropriate solution.

Producers are not satisfied with POs and their capacity to take account of their different needs and it is also necessary to pose the question of cooperation between the different actors in supply and distributions chains.

Rural development aid is main CMO's vector of support for structural measures for improving competitiveness and environmentally-friendly production. So the fruit and vegetables sector should be coherent and in synergy with support coming from rural development programmes.

The question of standards is more and more important because standards contribute to market transparency and reduce transaction costs. The standards have evolved in recent years taking into account organoleptic characteristic and nutritional quality of product as a respond to the market demands. At the same time the distribution chains are setting up their own labels and standards and they often become for producers a condition of access to the market.

According to the Proposal for a Council Regulation laying down specific rules as regards the fruit and vegetable sector (Reform of the Fruit and Vegetable Sector, 2007) the main objective of the reform of CMO fruit and vegetables are: improving competitiveness and market orientation of the sector and contribution to achieve sustainable production that is competitive on internal and external markets, reducing fluctuations in producers' income resulting from crises on the market, increasing the consumption of fruit and vegetables in the EU and continuing the efforts made by the sector to maintain and protect the environment, contribution to better balance the fruit and vegetables marketing chain, taking better into account the diversity of the sector, reinforcing the capacity of producers to manage crises, budgetary

predictability, insuring coherence with World Trade Organisation (WTO) rules, simplifying management and improving control.

Two different reform options were proposed: a) the transfer option and b) the PO+ option. According to the first option, support for modernisation and organisation of the sector would be granted via rural development policy and POs would only carry out withdrawals from the market. The second option proposed making POs more efficient and more attractive in order to make the sector more competitive. The legal framework would be simplified with new measures for crisis management and Member States would have possibility to draw up national strategies.

Although the quantification of the impact of the different reform options has been essentially qualitative because of limitations arising from the structure of the sector (great diversity, incompleteness of lack of comparability of existing data) the POs+ option has been chosen.

This option gathers the maximum of advantages. It insures maintaining POs and making them more attractive. It also provides inclusion of fruit and vegetables producers (including also table potatoes producers) and areas in the single payment scheme. As a result of the reform, Council Regulation (EC) No 1182 and Commission Regulation (EC) 1580 were adopted in 2007.

It is also necessary to mention the Council Regulation (EC) No 1234/2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products known as Single CMO Regulation. The intention was to make horizontal legislation covering all agricultural markets and products and to simplify the CMO's.

This Regulation excludes the fruit and vegetables sector:

“In respect of the fruit and vegetables, the processed fruit and vegetables, and the wine sector, only Article 195 of this Regulation shall apply.” (Art.1, paragraph 2.)

It means that Council Regulations No 2200/96 and No 2201/96 with all their amendments are still basis of the CMO for fruit and vegetables in the EU.

## MARKETING STANDARDS

Marketing standards for fruit and vegetables have played very important role since 1996. They presented classification system for fresh fruit and vegetables enabling market transparency and development.

Marketing standards give the description of products and indications on their market value without requiring physical presentation. The implementation of international marketing standards for fruit and vegetables reduces transaction costs between economic parties involved along the fruit and vegetable

marketing chain. The buyers will give preference to producers whose tested products are in full conformity with standards.

According to the Report of the Commission to the Council (2001), there are three the most important reasons for standardisation: producers and buyers have no direct relationship; physical presentation of products is excluded and brand development is extremely limited due to the structure of the agri-food chain.

The Regulation from 1996 aimed at maintaining and updating standards and Commission has reviewed most of the marketing standards enforced before the reform in 1996. At present quality standards are defined for 40 products covered by 33 Commission regulations. Beyond these institutional marketing standards, many operators have developed their own private standards attached to specific brand requirements.

Food safety standards are not part of the basic regulation for fruit and vegetables although the food safety standards contribute to improving market transparency and consumer demand. The question of implementation of food safety standards into the Common market organisation has been often raised.

It is very clear that bringing all standards for fruit and vegetables under the same legal framework would increase clarity, transparency and better coordination between different control procedures.

## PRODUCER ORGANISATIONS

Since 1996 POs are the most important support for CMO for fruit and vegetables because they are a key element in the grouping of supply. They marketed in 2004 close to 34% of total production.

The reform in 1996 put great emphasis on the renewal of the POs. Together with the marketing standards they are often considered as a cornerstone of the fruit and vegetables market organisation.

Member States recognise producer organisations according to a minimum number of producers and minimum volume of marketable production. The reform in 1996 gave two possibilities to producers: either to create new organisations or to benefit from a 5 year transition period to allow present producers organisations to fulfil the new requirements.

There are now about 1400 POs in the fruit and vegetables sector in EU.

The marketed value and the number and size of POs are extremely diversified among Member States. More than 70% of all fruit and vegetable production is marketed through POs in Netherlands and Belgium while the most important producing Member States have marketed less than 60% of all fruit and vegetable production (Italy 30%, Spain 50% and France 55%).

At the same time Italy, Spain and France have more than 100 POs and Belgium, Denmark and Austria have less than 10 of POs.

The new reform of the CMO for fruit and vegetables set new measures to encourage producers to join POs. POs have now different tools for crisis management: integration into the Single Payment Scheme, increased EU funding for promotion and organic production, a minimum level of environmental spending is required and export subsidies are abolished.

Besides POs there are interbranch organisations defined as legal entities made of representatives of economic activities linked to the production, trade and processing of fruit and vegetables. According to the Report from the Commission to the Council (2001) there are only five interbranch organisations: two of them in France and three of them in Spain.

## FRUIT AND VEGETABLES SECTOR IN CROATIA

According to data of Central Bureau of Statistics, orchards occupy 69.000 ha or 2.2 % of total agricultural land. Major fruit crops are apple, plum, peach, sour cherry and walnuts as well as olive and mandarin in Mediterranean area. Around 95% of orchards are owned by family holdings, making this production fragmented and unproductive, without market supply function. Therefore, most of fruit production has significant yield and quality oscillations. Due to unfavorable production structure and lack of market organization, Croatia imports huge quantities of all fruits. At the end of November 2005, there were registered 14,650.03 ha of orchards.

According to Agricultural Census 2003, there were 318,094 family holdings producing fruits, of which only 13.311 family holdings with plantations (4.2 %). Only 1.3 % of family holdings were growing fruits on more than 20 ha.

According to Agricultural census 2003, there were 132 businesses with orchards, out of which only 26 (or 19.7 %) with more than 100 ha of orchards.

Vegetables production in Croatia is possible in the whole country, thanks to geographical and climate differences.

According to official statistics data, in 1998 – 2004 period there were 132.822 ha of vegetables or 12.42 % of total area. 98.68% of the areas under vegetables were on family farms and only 1.32 % on areas of legal entities (companies and cooperatives).

In a period of 1998 - 2002 the most important vegetables were cabbage and kale (9,720 ha), onions (6,980 ha), tomato (6,500 ha), dry beans (6,400 ha), peppers (4.980 ha), cucumbers (4.100 ha) and carrots (3.360 ha).

These data does not include production of vegetables in gardens for own consumption. According to data from Agricultural Census 2003, such



production was established on 7,240 ha. The areas under plastic tunnels and green houses are not included because there is no official statistics. According to some estimations there are 300 - 500 ha of such areas (including production of flowers).

Average vegetables yields in Croatia are few times lower compared with average yields in EU and in the world. This is because of huge number of producers with small areas. However, there are also in Croatia bigger and specialized vegetables producers who use modern technology and make very high yields and quality.

According to the last Population Census from 2001, there are 185,942 active working agricultural populations in Croatia which makes 4.2 % of total active working population. In the structure of Croatian GDP, agriculture, forestry and fishery have participated with 7.48 % (average for 1998 – 2002 periods).

Vegetables production in the GDP structure in average participates with 2.03 %, and in total value of agriculture, fishery and forestry sector with 27.15 % (Croatian Vegetable Sector Project, 2004)

Fruit and vegetable processing is one of the weakest points in the food industry, because of the insufficient production of fresh fruits and vegetables, in spite of good climate and production conditions, as well as because of problems caused during privatization process and lack of investments.

In 2001 – 2004 period average quantity of processed fruits were 8,153 tones, mainly apples, sour cherries, plums, pears and peaches. Almost total quantities of dried fruits for consumption and further processing were imported from Western European countries.

In the same period, processed vegetables amounted between 17,700 and 26,060 tones.

## LEGAL FRAMEWORK FOR FRUIT AND VEGETABLES SECTOR IN CROATIA

Fruit and vegetables sector in Croatia is regulated through several acts and ordinances. Food Act from 2007 (Official Gazette 46/07) partially aligned with the Regulation 178/2002/EC is the base for fruit and vegetables sector relating quality standards.

Based on the Food Act two ordinances, Ordinance on fruit quality and Ordinance on vegetables quality came into force in October 2008. Those regulations are in line with European legislation regarding quality standards.

Processed fruit and vegetables are regulated by the Ordinance on the quality of fruit and vegetable products, mushrooms and pectin preparations (Official Gazette 1/79) and the Ordinances on the Amendments to the Ordinance on the

quality of fruit and vegetable products, mushrooms and pectin preparations (Official Gazette 20/82, and 74/90). This part of legislation is not harmonized with EU *acquis communautaire*.

Associations of fruit and vegetable producers on the regional level in the Republic of Croatia are registered in accordance with the Associations Act (Official Gazette 88/2001). In the Republic of Croatia there is no direct aid for products obtained by fruit and vegetable processing, but there is aid for growing different fruit and vegetables. It is expressed per hectare and it is defined in the Act on State Aid in Agriculture, Fisheries and Forestry. Aid is remitted directly to producers.

Presentation and labelling are regulated by Ordinance on labelling, presentation and advertising of food stuffs and harmonised with relevant EU legislation.

There is no legal framework for producers' organisations, producers groups and interbranch organisations and Republic of Croatia does not have a system of intervention arrangements in accordance with the arrangements designated in the Council Regulation (EC) No. 2200/96.

## CONCLUSIONS

The fruit and vegetables sector in EU covers different variety of products (fresh and processed fruit and vegetables), production systems, farm types and sizes and marketing channels. The production of fruit and vegetables is unpredictable and the products are perishable. Surplus on the market can strongly disturb the market. Therefore this sector is very important for the agriculture policy of the EU.

The Common Market Organisation (CMO) for fresh fruit and vegetables was established in 1962 and has been reformed in 1996 and in 2007 in order to be more competitive on internal and external markets, to reduce fluctuations in producers' income resulting from crises on the market and to increase the consumption of fruit and vegetables in the EU.

It is now regulated by two basic regulation and each of them has been amended several times in period of 1996 - 2008 (Regulation 2201/96 for processed fruit and vegetable products has been amended 10 times, and Regulation 2200/96 for fresh fruit and vegetables has been amended 14 times). There are also 33 Commission Regulations for fruit and vegetable standards, Regulation on POs recognition, Regulation on POs aid and Regulation on Operational Funds and Operational programmes. The reform from 2007 brought

simplifications for fresh fruit and vegetables. It emphasized the importance of POs and promotion of consumption as well as better market orientation.

It could be concluded that, in spite of the reform and regarding legislation, the fruit and vegetables sector in the EU is still very complex. It is very questionable if the reform would be applicable in all Member States especially in the light of the last EU enlargement.

Fruit and vegetables sector in Croatia is partially harmonised with EU legislation. Quality standards are fully in compliance with EU *acquis communautaire*. It is the same with labelling and presentation of products. On the other hand processed fruit and vegetables and aid system for fresh and processed fruit and vegetables are partially aligned with EU legislation.

The Republic of Croatia does not have a system of intervention arrangements in accordance with the arrangements designated in the Council Regulation (EC) No. 2200/96 and also there is no legislation regulating recognition and aid to the producers' organisations, producers' groups or interbranch organisations.

It could be concluded that although in the last few years the great efforts have been made in harmonisation of the legislation in the fruit and vegetables sector, there are still some opened questions needed to be answered before the EU accession.

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